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SUBJECT: NPC PRESS BRIEFING REPORTS DEFENSE SPENDING
INCREASE, SHANGHAI CORRUPTION, PROPERTY LAW, TAIWAN

REF: BEIJING 01403

Summary

1. (SBU) National People's Congress (NPC) press spokesman Jiang Enzhu touched on all the hot-button issues in his opening NPC press conference, convened on March 4, the day prior to the NPC's official opening. Jiang said:

-- China's military budget will increase by 17.8 percent in 2007,

-- the corruption investigation of Politburo Member and Shanghai Party Secretary Chen Liangyu is still underway but that Chen would not attend the NPC,

-- the controversial Property Law expected to be passed is consistent with the PRC constitution and reflects a "consensus" on how to best balance the competing interests it is designed to satisfy,

-- the new Corporate Income Tax Law will not dampen enthusiasm for foreign investment, and

-- Chen Shui-bian will use his final year in office to intensify his campaign for de jure independence and the Mainland differentiates among DPP members according to their support for Taiwan independence.

Comment: The session appeared orchestrated to plant the toughest questions in the mouths of Chinese journalists at the outset to ensure that Jiang would maintain the advantage.
End Summary.

NPC Ready to Roll

2. (SBU) Jiang began the press conference with a brief summary of procedural issues resolved at the usual "preparatory meeting" of NPC deputies held just prior to the press event. He said the meeting had approved the NPC agenda, elected a 175-member Presidium and elected Politburo member and NPC Vice Chair Wang Zhaoguo as Secretary General of this year's NPC. The Presidium held its first meeting and approved voting methods and other procedural matters. Jiang gave a preview of the official reports and legislation to be considered and press conferences to be held (see Ref) then opened the floor to questions. Jiang was on top of his brief, seemed non-plussed by tough questions, and offered a spirited response to the various issues raised. Comment: The first few questions addressing tough subjects such as the controversial property law and the purge of Chen Liangyu were asked by PRC journalists and allowed Jiang to control the discussion while appearing responsive. End comment.

Jump in Military Spending

13. (SBU) In response to a question from a Japanese journalist, Jiang said China's defense spending would increase by 52.99 billion RMB (USD 6.79 billion), or 17.8 percent, in this year's military budget--the biggest jump in military spending in several years. (Note: The increases in 2004, 2005, and 2006, according to statistics released at the NPC in previous years, were 15.3 percent, 12.5 percent, and 14.7 percent, respectively. End note). He said this year's defense budget accounted for 7.5 percent of the total government budget, a figure consistent with previous years--7.4 percent last year, 7.3 percent in 2005, and 7.7 percent in 2004.

14. (SBU) As in past years, Jiang defended the increase by claiming that it was primarily an effort to keep military spending in line with economic development and by asserting that China spent considerably less of its national budget on defense than the United States, Japan, Great Britain and France. He maintained that the increase reflected only a "slight" upgrade in spending on weapons and that most of the increase will be used to boost military incomes and quality of life and to improve military training. Jiang went out of his way to underscore the Chinese government's awareness of foreign concerns over military spending, stating that he wanted to "especially stress this point." He proceeded to reiterate China's claims that it will continue a foreign policy of "peaceful development" and a "defensive" national security strategy. China "has neither the ability nor the intention" to engage in an arms race with any country, he said, and is "no threat" to anyone.

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Status of Purged Shanghai Party Secretary

15. (SBU) Jiang brushed aside a question on whether Politburo Member and former Shanghai Party Secretary Chen Liangyu would lose his NPC delegate status, but said the NPC Secretariat had decided Chen should not attend with the Shanghai delegation. Jiang said the Central Disciplinary Investigation Commission inquiry was still underway and that Chen's NPC qualifications and other details would be "disclosed at an appropriate time."

Property and Income Tax Laws

16. (SBU) Jiang acknowledged that the controversial Property Law had gone through more readings (seven) than any law in NPC history and offered a surprisingly candid account of the various "interests" at play in addressing the legal issues raised by the status of private property in China's "socialist market economy." Engaging in deft verbal sleight-of-hand to reject assertions that the law is inconsistent with the PRC constitution, or that the latter is contradictory, Jiang said the bottom line was to ensure "equal protection" of the property rights of all interested parties, state, collective, and private. Otherwise, he argued, the incentive to "legally create and accumulate wealth" for all social groups would be lost. He claimed that a "consensus" among interested parties had finally emerged but that the upcoming NPC session would "improve upon" the law before it is passed.

17. (SBU) Jiang rejected out of hand a journalist's suggestion that abolishing the privileged status of foreign and foreign-funded enterprises would dampen enthusiasm for foreign investment. He said the new Corporate Income Tax law was drafted after considerable research input from central and local officials as well as experts who agreed that the China's economy had developed to the point where the change was necessary. He said the impact on foreign-funded firms

would be softened by the fact that there will be a transition period, that some privileges have not been revoked, and that many other factors affect the decision to invest.

Taiwan

18. (SBU) Jiang strongly reiterated Beijing's concern that Chen Shui-bian's alleged drive for de jure independence for Taiwan would intensify during 2007, Chen's last year in office. Warning that Chen's efforts might reach a "substantive stage," and would present a "grim challenge" to cross-Strait relations, Jiang nonetheless claimed that Chen lacked the popular support in Taiwan to succeed. In response to a question regarding the possibility of a DPP victory in Taiwan's 2008 presidential election, Jiang said China differentiates between those members of the DPP who are true independence advocates and other members who are not.
RANDT